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Our corporate
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maximum return
with reasonable risk.

1971 Annual Report to Investors

IU

International Utilities Corporation Forty-Seventh Annual Report 1971

A BALANCED COMPANY DIVERSIFIED IN LAND TRANSPORTATION, OCEAN SHIPPING, UTILITIES, INDUSTRIAL PRODUCTS & SERVICES, AND LAND DEVELOPMENT & AGRICULTURE

The Wilmington Tower, Wilmington, Delaware 19801

To Our Shareholders:

Earnings and revenues of International Utilities Corporation again reached record levels in 1971 and have now increased for nine consecutive quarters. For the year, net income and earnings per share improved 37 per cent, while sales and revenues increased 11 per cent.

Net income rose to $50.1 million, or $3.28 per common share, as compared with 1970 results of $36.4 million, or $2.39 per share. All 1970 figures throughout this report have been restated to reflect the acquisition of Pacific Intermountain Express (P-I-E) on a pooling of interests basis.

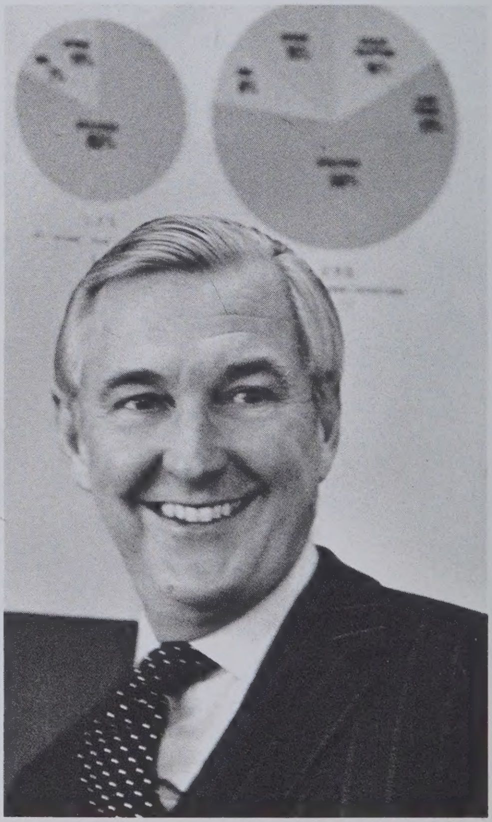
Sales and revenues topped the billion dollar mark for the first time, totaling $1.1 billion. The sales and revenues for 1970, restated, were $997.7 million, compared with $867.1 million reported by IU in the 1970 annual report.

Here are 1971 highlights from each of IU's major areas of business, with earnings contributions shown on a pre-tax basis:

Land Transportation—IU's acquisition of P-I-E created the third largest trucking operation in the United States. Tight cost controls resulted in improved performance, as this segment of the business contributed $13.4 million to earnings, a 66 per cent gain from the $8 million reported a year earlier when results were affected by a strike.

Ocean Shipping—The company continued its long history of profitable chartering of its tanker fleet, with the Gotaas-Larsen subsidiary reporting a record contribution to earnings of $29.1 million. This is a 27 per cent increase above 1970 results. The entry into two new marine areas—semi-submersible oil drilling platforms and large liquefied natural gas (LNG) carriers—is expected to produce substantial additional earnings beginning in the 1974-75 period.

Utilities—This group was strengthened by combining Canadian gas and electric operations into a single corporate structure, Canadian Utilities, Limited, and by reorganizing and refinancing of General Waterworks Corporation. Above-average gains in gas and electric operations helped to boost the earnings contribution to $25.1 million, a 16 per cent improvement over 1970.



John M. Seabrook
Chairman and President

Industrials—Improvement in all three operating groups—Product Distribution, Metals & Minerals, and Energy & Process Industries—pushed earnings contributions to $12.2 million, up 26 per cent from 1970. As a result of the reorganization of the industrial units, IU is now better positioned to serve these large and growing markets.

Agriculture/Land Development—Operations of C. Brewer and Co., Limited, IU's 54 per cent-owned Hawaiian affiliate, showed improvement in 1971, with the earnings contribution rising 6 per cent to $7.6 million despite substantially lower income from the sale of Puerto Rican land. Construction was started on the first major project of Brewer's $250-$300 million Hawaiian land development and resort program which will unfold over the remainder of this decade.

At IU, our corporate objective is to provide shareholders with above-average earnings growth by operating a limited number of complementary businesses balanced to produce maximum return with reasonable risk.

In pursuit of this goal, IU management in 1959 began shaping a diversification program to provide shareholders with greater growth and higher return on capital than could be obtained through utilities alone, the base from which IU was built. Diversification was fashionable throughout the 1960s, but only a few of the so-called conglomerates have consistently demonstrated an ability to utilize this corporate form to improve earnings and increase dividends.

IU is in this select group. Again in 1971 the company exceeded the goal set a decade ago of increasing per share earnings by 15 per cent each year. Restated earnings per share have increased from 91 cents in 1962 to $3.28 in 1971. This is a compound annual growth rate of 15.3 per cent. Since 1969, per share earnings have increased more than 79 per cent.

During the ten-year period from 1962 through 1971, dividends increased from 72 cents per share to $1.40, a 7.7 per cent compound annual growth rate. Dividends paid per common share have increased every year for the past 27 years.

Achievement of these goals, particularly during the past two years when the U.S. economy has been sluggish, reinforces our confidence in IU's corporate philosophy and operating techniques.

Sales & Revenues and Net Income
(in thousands except per share data)

	1971	1970
Sales and revenues	$1,108,976	$997,728
Net income:		
Operations	50,051	36,095
Properties and investments	—	338
Net income	50,051	36,433
Preferred dividends	2,933	3,090
Balance for common and common equivalents	$ 47,118	$ 33,343
Per average share:		
Primary:		
Operations	$ 3.28	$ 2.37
Properties and investments	—	.02
Net income	$ 3.28	$ 2.39
Average shares	14,354	13,967
Fully diluted:		
Operations	$ 2.81	$ 2.01
Properties and investments	—	.02
Net income	$ 2.81	$ 2.03
Average shares	17,588	17,686

In recent years, we have become major participants in several markets and businesses which are significant elements in vital, expanding segments of the world economy.

In ocean shipping, we operate one of the leading bulk carriers in the world and our Gotaas-Larsen fleet is strongly positioned to continue profiting from the growing demand for energy. Expansion into liquefied natural gas tankers and oil drilling platforms will enlarge this role.

In trucking, the combination of Ryder Truck Lines and P-I-E covers almost every major U.S. market and creates a potent force in the largest, fastest growing segment of land transportation.

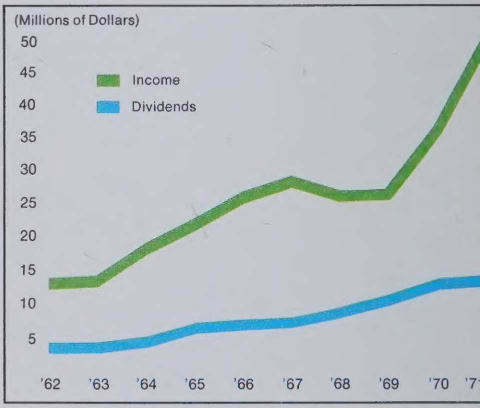
In utilities, we are benefiting from the rapid growth rate of Alberta and the adjoining northern Canadian territories as a result of the development of the vast natural resources found there. In addition, a number of our water companies are located in rapidly expanding areas of the U.S.

In the industrial markets, we are concentrating our efforts in three principal areas. Our product distribution activities, centered in the fast-growing southeastern portion of the U.S., offer great potential through geographic expansion, improved distribution techniques, and broadening of product line. In energy and process fields, we are enlarging our participation in the petrochemical area, and placing greater emphasis on the attractive fossil-fuel, nuclear electric, and natural and synthetic gas equipment markets. Much of our metals and minerals activity involves the control and recycling of wastes in steel and other heavy industries, with demand expected to rise in direct proportion to worldwide concern with environmental problems and the growth of the steel industries in developing countries.

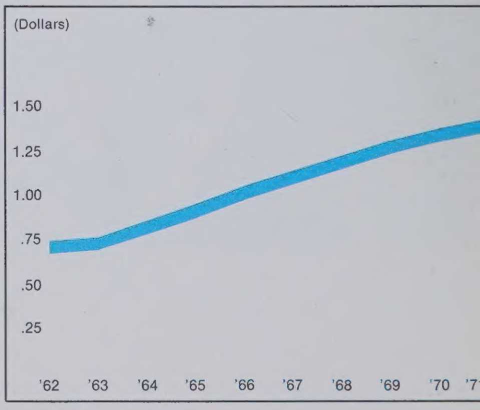
In land development, our Hawaiian-based affiliate is embarking on a major recreational and resort program which will supplement its agricultural business and increase its future growth potential.

The financial and economic balance provided by these component companies underscores the soundness of IU's management approach. This balance illustrates the complementary relationship between mature companies that generate substantial cash flow and developing companies that require large sums for growth.

NET OPERATING INCOME AND COMMON DIVIDENDS



DIVIDENDS PAID PER COMMON SHARE



The historical development of Gotaas-Larsen and the success of Ryder Truck Lines are two excellent examples of how IU has operated for long-term internal growth rather than for immediate short-term gains. After acquisition, both companies postponed payment of dividends until IU had invested sufficient capital to finance what have become dramatic growth companies.

We believe that the well balanced multi-market company is the best investment vehicle because it can identify growth areas and commit necessary resources by directing internal cash flows into those situations which offer the most attractive returns.

At IU we are in effect optimizing investment potential by holding a "portfolio of risks," matching cash flows and capital requirements, pairing off tax consequences, and utilizing all management resources to analyze alternatives before making investment decisions. Because IU is able to balance risks on a worldwide basis, only a relatively small proportion of our assets is ever exposed to any one set of risks.

We manage IU for the benefit of the shareholders. But we fully recognize, respect, and heed our corporate responsibilities to the environment, to the public, to our customers, and to our employees. In our view, these commitments create no conflict in management's decision-making process.

The results of the past year, together with the record of the past decade, give us confidence that IU will continue to grow. The charts which accompany this letter show a number of favorable trends. We expect to maintain these trends, including the achievement of our annual 15 per cent per share earnings improvement.

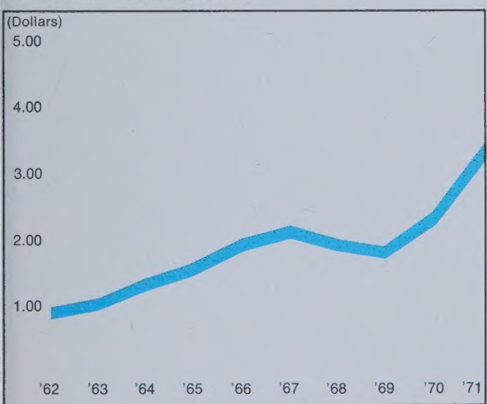
Looking ahead, we view 1972 as a year of further opportunity and growth.

Sincerely,

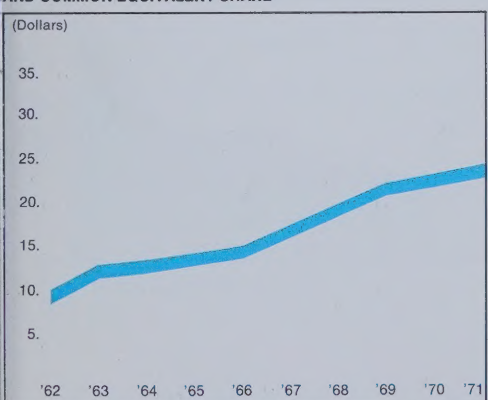
John M. Seabrook
Chairman and President

March 10, 1972

NET OPERATING INCOME PER COMMON SHARE AND COMMON EQUIVALENT SHARE



SHAREHOLDERS' EQUITY PER COMMON SHARE AND COMMON EQUIVALENT SHARE



1971 Financial and Business Review

In a year marked by turmoil in international money and financial markets, IU was successful in reinforcing its financial strength. Through a series of strategic moves, the operating groups enhanced the flexibility with which they can finance projected investment for growth.

Two of the most significant moves involved the utilities. Reorganization of the Canadian electric and gas operations into a single corporate structure, Canadian Utilities, Ltd., (CUL), provides a larger corporate base for financing requirements. Early in 1972, CUL raised $30 million through the sale of a debenture issue. By far the largest financing done by the Canadian operations, the issue reflects CUL's status as a prime investment vehicle. Similarly, reorganization of General Waterworks Corp. set the stage for its first public debt offering, a $25 million first mortgage bond.

A $25 million term credit was arranged in 1971 for a group of our industrial companies, establishing them as a separate source of credit to support further growth.

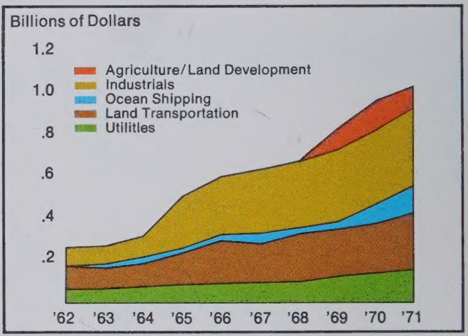
Our Hawaiian affiliate, C. Brewer and Co., recast its long-term debt structure in order to strengthen its ability to finance its land development program. As a result, a Brewer subsidiary needed no parent company guaranty to arrange $9.3 million of long-term mortgage financing for the first of its new resort facilities.

IU's capital expenditures in 1972 are expected to rise to approximately $170 million from $134 million in 1971. Major outlays are scheduled in Utilities, with $56 million, and Ocean Shipping, with $40 million. Brewer will account for about $30 million; Land Transportation, $25 million; and Industrials, $18 million. Retained cash flow will finance most of IU's growth in 1972.

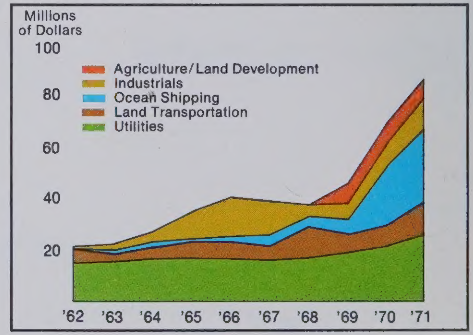
At year-end IU's existing unused lines of credit and revolving agreements were in excess of $150 million.

Fluctuations in international exchange rates had little effect on 1971 earnings. The "floating" Canadian dollar maintained near-parity with the U.S. dollar throughout the year. Ship charters are almost entirely in U.S. dollars. To

SOURCES OF SALES AND REVENUES FROM MAJOR GROUPS



SOURCES OF PRE-TAX INCOME FROM MAJOR GROUPS



avoid exposure to revaluation of the yen, construction of a new 215,000 dwt tanker was, in effect, paid for in advance and financed through a Eurodollar construction credit rather than Japanese shipyard credit.

The task of accomplishing IU's transition from a holding company to an operating company was essentially completed in 1971. All but a small part of the investment portfolio was liquidated and a number of smaller industrial companies which did not meet our long-term strategic objectives were sold.

During the past year, the company terminated its Canadian residency. Previously IU operated as a U.S. corporation resident in Canada and paid corporate income

Sources of Sales & Revenues and Income
(in thousands)

Contributions by operating group:	Sales & Revenues 1971	Sales & Revenues 1970	Income* 1971	Income* 1970
Land Transportation	$ 273,541	$244,640	$13,374	$ 8,046
Ocean Shipping	124,180	87,635	29,143	22,982
Utilities	137,155	119,147	25,096	21,636
Industrials	377,003	359,005	12,180	9,643
Agriculture/Land Development	168,021	154,511	7,569†	7,174†
Other	18,934	20,909	(801)	(199)
Total operating groups	1,098,834	985,847	86,561	69,282
Corporate investment income	10,142	11,881	2,232	3,501
Corporate expenses, principally interest	—	—	(13,925)	(15,453)
Income taxes	—	—	(24,411)	(19,791)
Foreign exchange adjustments	—	—	(406)	(1,444)
Total sales & revenues	$1,108,976	$997,728		
Net income:				
Operations			50,051	36,095
Disposition of properties and investments			—	338
Net income			50,051	36,433
Dividend requirement on preferred stock			2,933	3,090
Balance applicable to common shares and common equivalent shares			$47,118	$33,343

**The contribution of each operating group to income is stated before income taxes as a way of showing year-to-year operating performance.*

†After deducting 46 per cent minority interest.

taxes to both countries. This decision, made with reluctance in view of IU's long ties in Canada, was based on the increasing difficulty of operating under the complex tax laws of two sovereign nations. As a result of this change, the dividends on IU securities are now free from all withholding taxes worldwide.

The balance of IU's business mix again was demonstrated in 1971 as all five operating groups reported improvement in both sales and earnings contributions.

Land Transportation—Contribution to earnings soared 66 per cent on a 12 per cent gain in revenues. Earnings contribution totaled $13.4 million, up from $8 million a year earlier when results were affected by work stoppages. Revenues increased to $273.5 million from $244.6 million.

Ocean Shipping—Gotaas-Larsen reported a record earnings contribution of $29.1 million, up 27 per cent from $23 million in 1970. The rise came on an increase in revenues to $124.2 million from $87.6 million, a gain of 42 per cent. The 1971 earnings figure was reduced by $5.6 million as a result of the decision to accelerate depreciation schedules on the fleet's smaller ships.

Utilities—Strong improvement in gas and electric operations, largely the result of increased industrial sales, helped raise the earnings contribution of the utilities group by 16 per cent and revenues by 15 per cent. Earnings contribution rose to $25.1 million from $21.6 million and revenues increased to $137.1 million from $119.1 million.

Industrials—Earnings contribution rose 26 per cent from 1970 on a 5 per cent rise in sales. The earnings contribution was $12.2 million, up from $9.6 million, and sales rose to $377 million from $359 million.

Agriculture/Land Development—Substantial improvement in agricultural and marketing operations—the best in more than 10 years—boosted the earnings contribution of C. Brewer and Co., Ltd. to $7.6 million from $7.2 million, a gain of 6 per cent. Year-earlier results included $3.6 million from the sale of land in Puerto Rico, compared with only $721,000 in 1971.


INTERCITY
MOTOR CARRIERS
CLASSES I AND II
OPERATING REVENUE
$ BILLIONS
LAND TRANSPORTATION
GROUP OPERATING REVENUE
$ MILLIONS
12
10
8
250
200
150
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971
RYDER
P·I·E
24-1174
17044
77
115

Land Transportation

When IU entered the motor carrier industry with acquisition of Ryder Truck Lines in 1965, the long-term plan was to make this southern regional carrier the base on which to build a nationwide trucking system. This goal was achieved in 1971 with acquisition of Pacific Intermountain Express, a major transcontinental carrier.

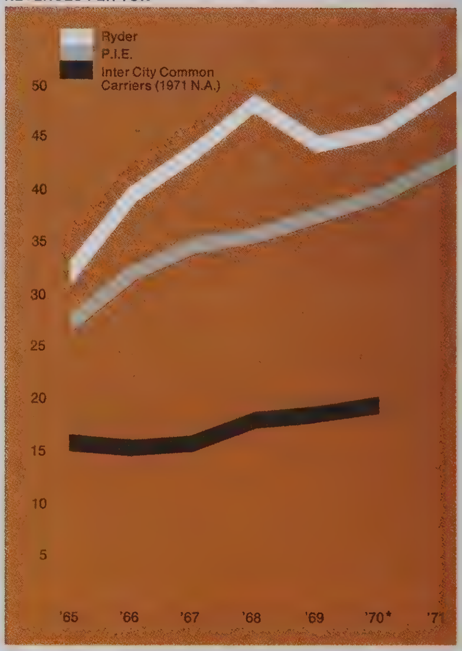
The 1965 decision was prompted by early recognition of trucking's growth potential and characteristics. Barely 30 years old, trucking was highly fragmented, lacking in professional management, and largely undercapitalized.

Construction of the Interstate Highway System had been started, movement of business and industry away from congested inner cities was under way, and railroads were turning away less-than-carload business. These trends indicated that trucks would play a growing role in the increasingly complex U.S. distribution system. The economics of trucking pointed to large, efficient, well-managed and financially strong motor carriers as an attractive investment opportunity.

Today, trucking is the largest segment of the U.S. transportation industry. Its revenues are five times those of all railroads and seven times those of U.S. airlines.

Ryder and P-I-E give IU a major role in this huge industry. Merger of the two lines—by far the biggest consolidation in U.S. trucking history—will create the third largest motor carrier in the country. When integrated in 1972 Ryder and P-I-E will form one of the world's largest land-based transportation systems. The combined operations provide service through some 285

REVENUES PER TON



*Preliminary Estimate for Inter City Carriers

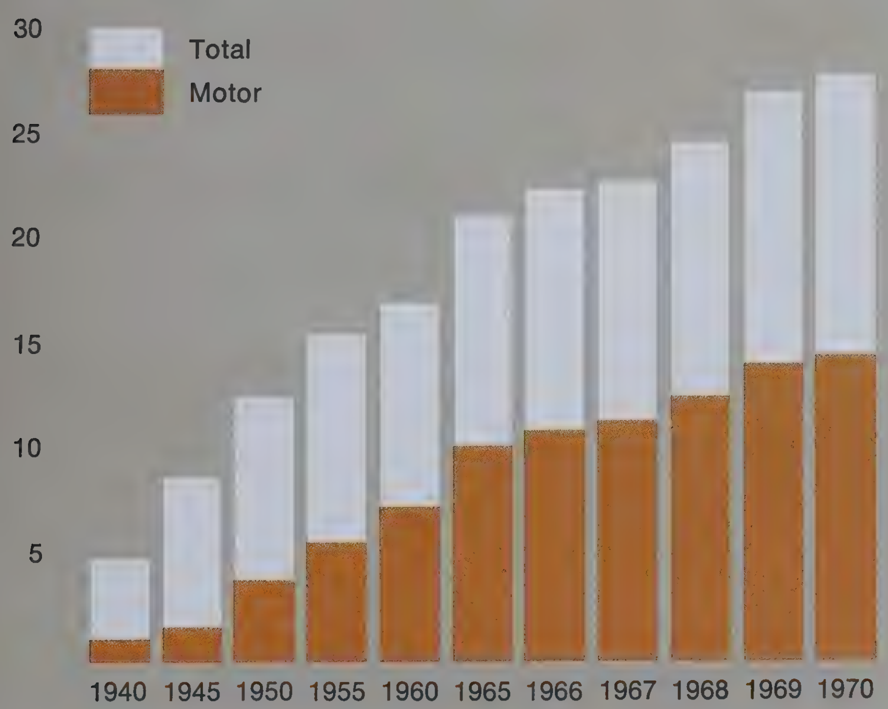
terminals and cover almost every major market in the U.S. In 1971, Ryder's and P-I-E's 12,400 pieces of equipment hauled 5.4 million shipments totaling 5.8 million tons.

Both Ryder and P-I-E turned in record performances in 1971, with income up substantially from 1970 when the industry was beset by labor problems and a slump in the national economy. Revenues increased to $273.5 million in 1971, up 12 per cent from $244.6 million the year earlier. Earnings contribution rose 66 per cent to $13.4 million from $8 million.

Despite the economic slowdown, revenues of the two companies pulled abreast of the industry growth rate in 1971 and are expected to exceed this yardstick over the next several years. Closing of the gap reflects completion of the transition of Ryder from an unprofitable short-haul distribution carrier confined to the south to a long-haul trucker serving every major market in the eastern half of the country. During the rebuilding process, the rise in revenues trailed the national rate, and as part of its strategic development plan, Ryder in 1971 began a program designed to capture a larger share of its market through improved scheduling and service.

MOTOR CARRIERS VS. TOTAL PRODUCT TRANSPORTATION

Billions of Dollars



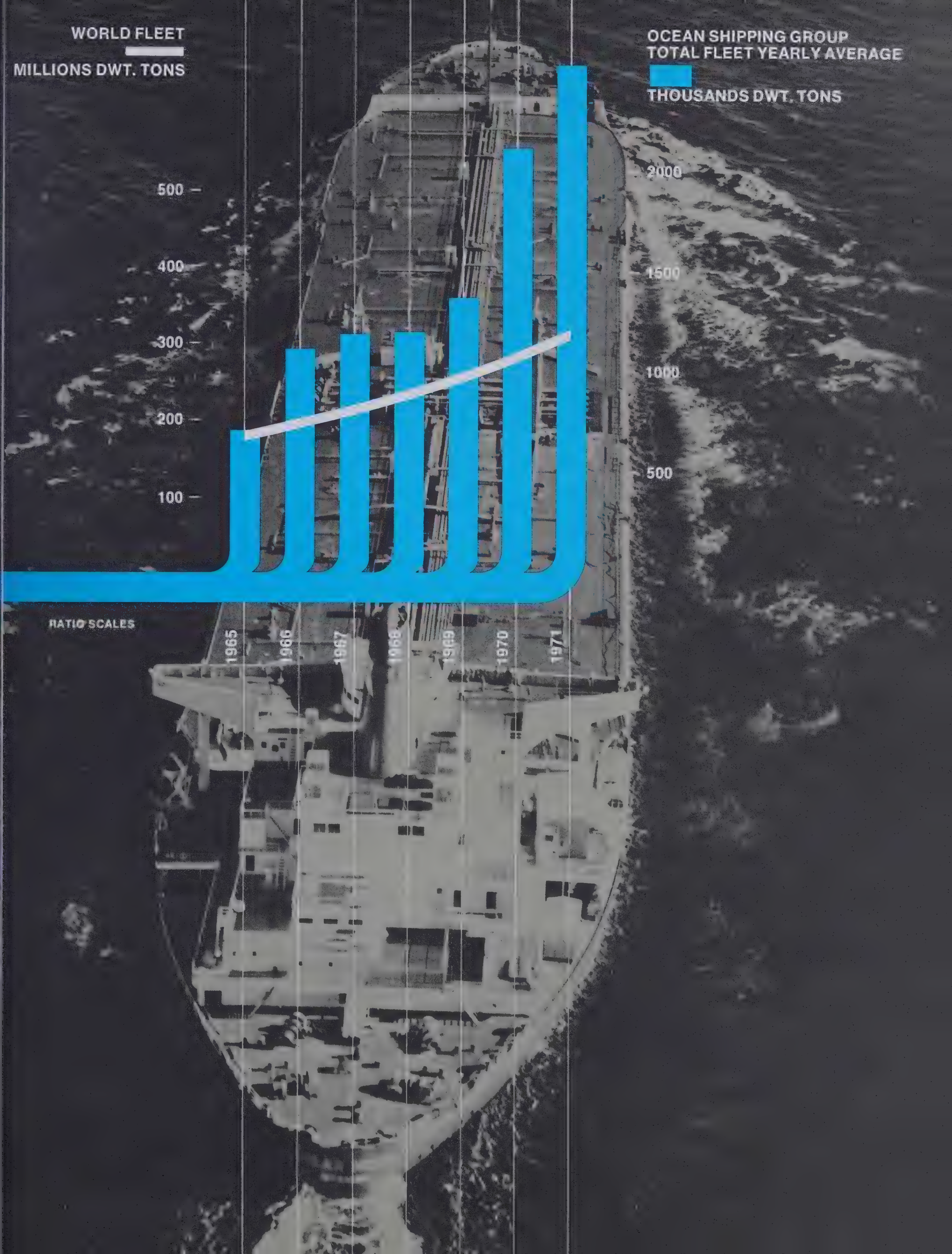
Computerized management information systems pioneered at Ryder also are expected to help P-I-E maximize its potential in the years ahead. Consolidation of Ryder's and P-I-E's route structures creates a coast-to-coast network that opens new market opportunities, offers internal efficiencies, allows longer length of haul, and affords better control over both operations and shipments.

The system allows a unique thru-service from the west and northwest to all of the major southeast markets. This permits faster delivery of through freight from shipper to consignee by eliminating intermediate handling and reducing transfers of shipments enroute, resulting in both better service and cost efficiencies.

Economic and financial characteristics of IU's trucking operations balance well with other components of the corporate mix. Motor carriers are sensitive to swings in the U.S. economy in contrast to Ocean Shipping's responsiveness to the world trade cycle. Although trucking is a regulated industry, motor carriers are *rate*-regulated, not *profit*-regulated. As a result, good trucking management has strong incentive to produce above-average results.

Trucking's labor content is high, but labor and many other costs are variable, and effective management can control such costs. The sharp rise in 1971 Land Transportation profits on a modest revenue gain reflects this characteristic. Trucking yields a relatively high return on equity and generates strong cash flows.

Trucking has had a greater growth rate than the national economy over the past decade. Continuation of this trend is expected to enlarge the role of motor carriers in moving the nation's goods—and with it the opportunities for large, well-managed companies.


WORLD FLEET
MILLIONS DWT. TONS
OCEAN SHIPPING GROUP
TOTAL FLEET YEARLY AVERAGE
THOUSANDS DWT. TONS
500
400
300
200
100
2000
1500
1000
500
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971

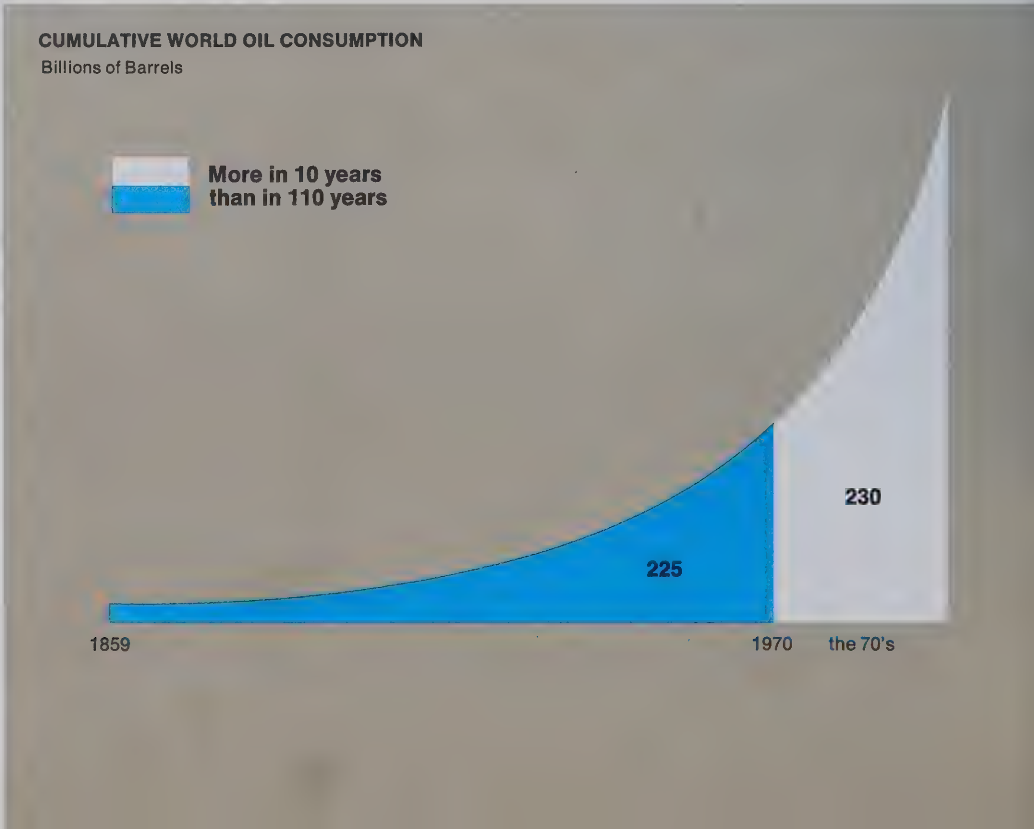
Ocean Shipping

One test of any business strategy is how well it achieves goals in varying economic climates over a period of time. For IU's Gotaas-Larsen Ocean Shipping subsidiary, 1971 provided such a test.

Gotaas-Larsen's basic strategy is its balanced chartering program. Most of its tonnage is chartered at any given time, but the dates at which the charters expire are staggered. Consequently, Gotaas-Larsen is not under pressure to charter a large number of ships in any one year.

This strategy avoids the price sensitive supply/demand characteristics of the spot market, where ships are chartered for single voyages. The extreme volatility of this market is apparent in the wide rate fluctuations over the past two years. Nevertheless, Gotaas-Larsen reported record revenues and earnings contribution in 1971. Revenues rose 42 per cent to $124.2 million from $87.6 million and earnings 27 per cent to $29.1 million from $23 million.

The 1971 income figure was reduced by $5.6 million as a consequence of the decision made in the first quarter to accelerate depreciation on all vessels 100,000 tons and under. On a depreciation basis comparable with 1970, earnings would have been $34.7 million, a rise of 51 per cent. The new depreciation schedule will reduce 1972 earnings by $4 million but will provide higher future margins beginning in 1976.



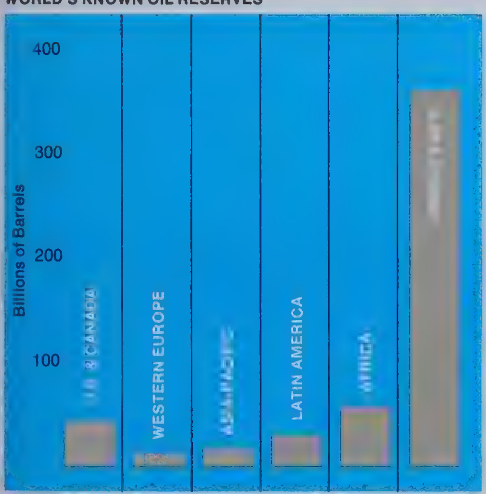
In pursuit of this balanced chartering strategy, Gotaas-Larsen entered 1972 with 87 per cent of its tonnage chartered for the full year. In addition 58 per cent is fixed for 1973, 42 per cent for 1974, and about 35 per cent from 1975 through 1978.

Four of the company's 215,000 dwt Very Large Crude Carriers (VLCC) are chartered out for staggered five-year periods starting in November 1972 and running into 1980. Two were chartered in December 1970, one the following February and the fourth in November 1971. Despite the fact that the spot market varied widely during this period, all four charters were at about the same rate. This record demonstrates that the market for VLCCs is influenced by fundamental long-term considerations quite different from temporary spot market imbalances.

Factors affecting the time charter market include economies of scale VLCCs offer the major international oil companies which charter the vessels, higher tanker construction costs, growing demand for crude oil reflecting rising living standards throughout the world, increasing dependence on Middle East oil to meet this demand and the political uncertainties of the region, and the supply/demand relationship for seaborne oil transport. An increasingly significant element in the overall world equation is growing U.S. reliance on crude oil imports to meet the energy gap. U.S. maritime officials have estimated that seaborne U.S. oil imports will rise from about one million barrels a day currently to 14 million in 1985. This could have a significant impact on the supply/demand balance because of the long distances between major sources of oil and the U.S.

Just as it was among the first independent operators to place orders for the construction of VLCCs, Gotaas-Larsen let a contract in 1971 to build the largest liquefied natural gas carrier currently on order. The 125,000 cubic-meter vessel is scheduled for delivery in mid-1975.

WORLD'S KNOWN OIL RESERVES



In another move to capitalize on the growing world energy market, which is doubling every 10 years, the company ordered two semi-submersible ocean drilling platforms for lease-out to oil exploration companies in the promising North Sea. Gotaas-Larsen also acquired a 40 per cent interest in Det Nordenfjeldske Dampskibsselskab, a Norwegian coastal shipping company which is developing capabilities to service drilling operations in the North Sea. An additional 215,000 dwt tanker was ordered for delivery in 1973 and Carribean cruise ship operations were expanded.

Development of Gotaas-Larsen into one of the world's leading ocean shipping companies points up IU's corporate strategy of nurturing operations with superior growth potential through infusions of capital, managing them to maturity and using their cash throw-off to develop a new generation of opportunities.

When Gotaas-Larsen was acquired by IU in 1963, its fleet consisted of 12 ships totaling about 350,000 dwt. Today Gotaas-Larsen operates one of the world's leading bulk fleets with 55 ships totaling 3.7 million dwt and another 750,000 dwt under construction or on order.

From 1963 through 1969 all of Gotaas-Larsen's earnings were reinvested to finance its expansion. However, in 1970 and 1971 Gotaas-Larsen was able to provide $19 million in dividends for investment in other activities while financing its own continued growth.

The stability and predictability of Gotaas-Larsen's earnings resulting from its chartering policy and the economic environment in which it operates complement other elements of IU's overall business mix. Shipping generally follows the world trade cycle and can shift its sphere of operations to meet changing trade patterns. It has a superior rate of return on investment, minimal labor content, and high cash throw-offs from depreciation.


U.S. & CANADIAN INCOME FROM ELECTRIC GAS AND SANITARY SERVICES
BILLIONS OF U.S. $
UTILITIES GROUP SALES AND REVENUES
$ MILLIONS
18
16
14
12
125
100
75
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971

Utilities

Stretching from the border of Montana to the northwest corner of Alberta—a distance of 600 miles—and beyond into the Yukon and Northwest territories, IU's Canadian gas and electric network lies astride one of the world's great treasures of natural resources. In each of the past three years, Alberta's output of gas, oil, coal and other minerals topped the billion-dollar mark.

Spurred by development of these vast natural resources, the province's industrial output and population have increased at a rate exceeding that of Canada as a whole.

Earnings contribution of the utilities group rose 16 per cent in 1971 to $25.1 million compared with $21.6 million a year earlier. Revenues increased 15 per cent to $137.1 million compared with $119.1 million.

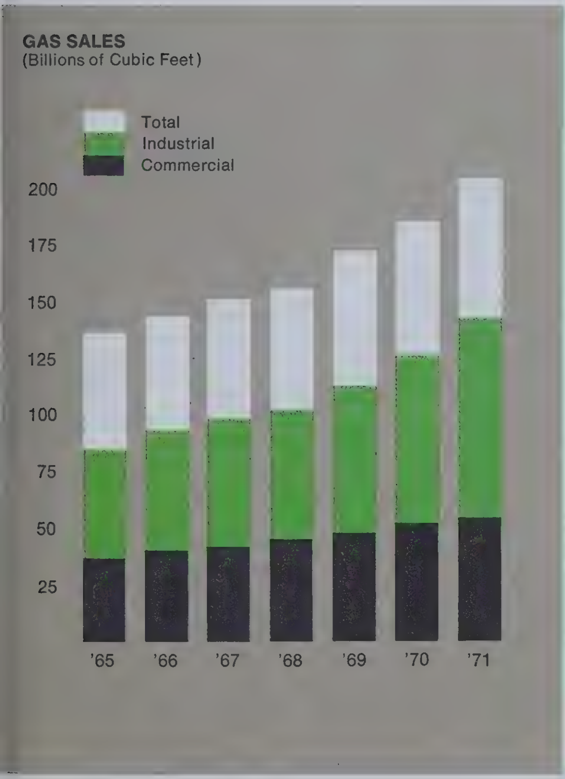
The utilities have been the foundation of IU's diversification program which over the past 10 years has reshaped the company into one of the world's major multi-market organizations. The group has had superior growth and provides desired stability and cash flow which are complementary to IU's other businesses.

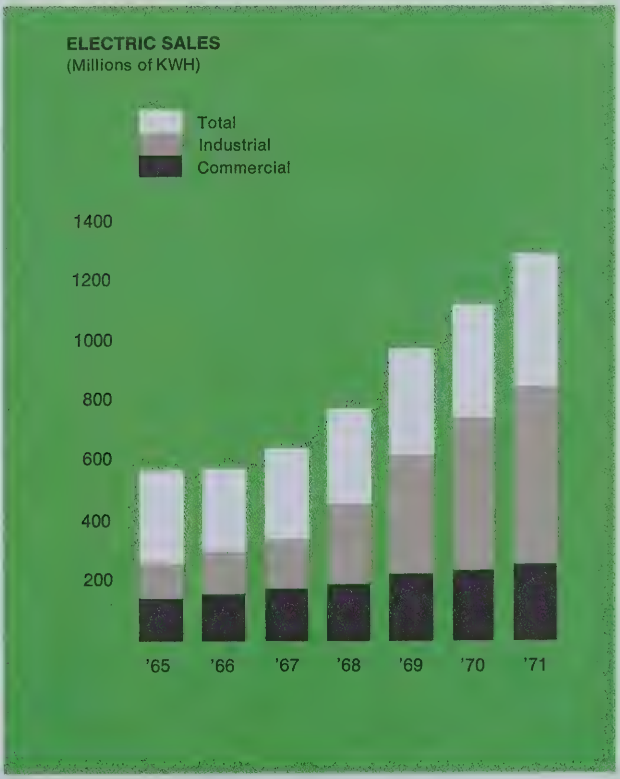
Utilities have stable earnings and serve to balance other operations which tend to follow various business cycles more closely. They are low in labor content, balancing businesses with high labor components, such as Land Transportation. They have a steady cash flow, and well-run utilities operate with negative working capital. They also are highly leverageable, being both capital intensive and stable.

In 1971, electric energy output rose 14 per cent to 1.3 billion kilowatt hours, well over double the 1965 figure. A large part of the rise reflects increased power consumption in the oil fields served by the company, largely in the northern portions of the province. These increases in power consumption, in turn, are the result of higher oil exports to the U.S. in response to the energy gap. Electric service is now provided for 100 oil companies at some 1,500 locations.

Industrial sales in 1971 represented approximately 32 per cent of electric revenues, up from 28.2 per cent a year earlier. Additionally, industrial growth has quickened the pace of commercial activity. In 1971, commercial sales increased to about 31 per cent of revenues from 27.4 per cent a year earlier. Industrial and commercial sales represented 63 per cent of 1971 revenues, up from 55.6 per cent in 1970. Electric revenues rose to $30.3 million from $26.5 million in 1970, better than twice the 1965 total.

Gas sales in 1971 increased more than 10 per cent to 206.6 billion cubic feet, a 52 per cent rise since 1965. Market growth, particularly industrial sales, and a rate increase helped boost revenues nearly 17 per cent to $70 million from $59.9 million a year earlier and $44.5 million in 1965.





Earnings contribution of the Canadian group rose 19 per cent to $18.6 million from $15.6 million in 1970. Revenues increased 16 per cent to $100.3 million from $86.4 million.

In response to the province's service needs, the group's capital expenditures totaled about $160 million over the past five years and an additional $68 million is planned for further expansion in 1972 and 1973.

To enable the electric and gas utilities to hold down rates by financing capital expenditure programs on more favorable terms, a major reorganization in January 1972 combined the four electric and gas affiliates in Alberta into a single corporate structure, Canadian Utilities, Limited. IU holds about 86 per cent of the outstanding shares of CUL, which is now one of the largest investor-owned utilities in Canada with assets of $310 million. Early in 1972, CUL raised $30 million to reduce bank debt and finance its expansion program.

General Waterworks Corporation, which owns and operates 80 utility properties providing water, sewer and heating services to 330,000 customers in 18 states and the Province of New Brunswick, Canada, reported operating revenues in 1971 of $36.8 million, a 13 per cent increase from $32.7 million the previous year. Earnings contribution for 1971 was $6.5 million, up from $6 million in 1970, a 7 per cent gain.

Since 1968, the year in which the company was merged into IU, General Waterworks' operating revenues have increased 43 per cent and earnings contribution has risen nearly 30 per cent. Capital expenditures for 1972 will be $16.8 million.


MERCHANT WHOLESALERS OF NON-DURABLES SALES
$ BILLIONS
175
150
125
100
75
PRODUCT DISTRIBUTION GROUP SALES AND REVENUES
$ MILLIONS
300
250
200
150
100
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971
Farmbest
C.T. GREEN BEANS

Product Distribution

From an 11-state base in the southeastern U.S.—one of the fastest-growing sections of the country—IU is implementing an overall strategy to expand and broaden the scope and capabilities of its Product Distribution Group.

The strategy is built around two distribution systems, one encompassing dairy products, institutional foods, and related products requiring refrigeration; the other, paper and related dry products.

The distribution industry offers above-average opportunities for growth and increased profitability because of its underdeveloped state, highly fractionalized product lines and distribution facilities, and a lack of management and capital resources needed to apply advanced systems and controls. Large integrated suppliers such as IU can offer customers superior service, improved quality control, fewer deliveries, and broader product mix.

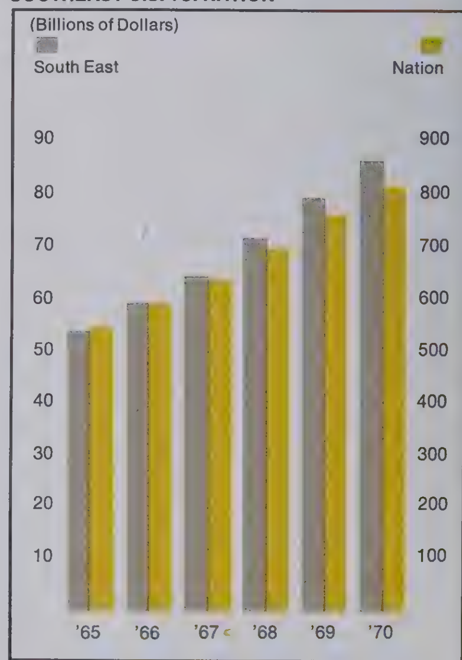
From its present base, the Product Distribution Group plans major product and geographic expansion in the next several years. Modularity of the distribution function and its adaptability to broad segments of the non-durable market make this type of horizontal expansion feasible. In addition, many of the management systems pioneered by IU's motor carrier operations are transferrable to the distribution function since both involve the daily handling of thousands of small shipments.

The financial characteristics of product distribution blend well with the other segments of IU's industrial operations. Distribution is characterized by low margins on high sales, heavy cash flows, high returns on capital investment, and moderate resistance to economic downturns. These characteristics counterbalance the capital intensive, more cyclical capital goods segment of IU's industrial mix.

In its initial emphasis on institutional food distribution, the Group is focusing on an enormous and rapidly growing market. Americans now eat one out of four meals away from the home. The figure is expected to rise to one out of three by 1975. The national market, estimated at $20 billion a year at wholesale, is growing by 10 per cent annually. The billion-dollar-a-year southeastern market is expanding at a faster pace as a result of population and income trends.

Group revenues in 1971 increased to $219.6 million, from $205.7 million in 1970.

PERSONAL INCOME GROWTH
SOUTHEAST U.S. VS. NATION




STEEL INDUSTRY REVENUES
$ BILLIONS
METALS & MINERALS GROUP SALES AND REVENUES
$ MILLIONS
36
27
18
50
40
30
20
10
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971

Metals & Minerals

In line with its diversification and expansion strategy, the Metals & Minerals Group moved into a new area in 1971 with acquisition of a major supplier of lime, limestone, and related products used in general construction, heavy chemicals, agriculture, refractories, metallurgical processing, and air and water pollution control systems.

Early in 1972, the Group expanded its environmental role by acquiring Western Hemisphere rights to a new Swedish process for pelletizing and recycling by-product waste materials in the iron and steel industry. These materials include particulate matter from furnace emissions, a major source of air pollution in steel-producing areas. Wide interest has been evidenced in the process and it is expected to become a major source of revenue over the next several years. Construction of the first unit is expected to start in 1972.

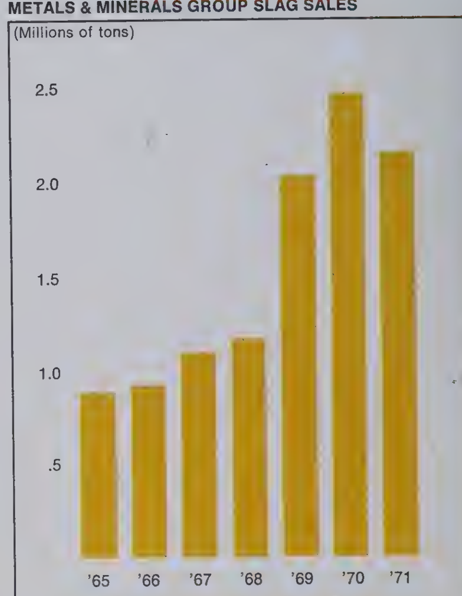
In addition to materials handling, slag sales and metal recovery, the Group also manufactures and sells ferroalloys used in the manufacture of steel and iron and engages in fabrication and erection of structural steel.

Materials handling contracts in various parts of the world provide a high degree of protection from dependence on the U.S. steel business cycle. Services are now provided in 30 mills in Canada, the U.S. and South America. A contract was signed in 1971 to provide service to a new mill in England, marking initial entry into the promising European market. The international operations and the focus on environmental control aspects of the metals industry have enabled the Group to grow at a significantly faster rate than the industries which it serves.

Despite the industry-wide decline in U.S. steel output in the fall of 1971, Group revenues increased to $45.6 million from $40.7 million in 1970.

In addition to geographic balance, the Group provides IU's industrial operations with a high return on investment, moderate stability of earnings, steady cash flow, and above-average growth.

METALS & MINERALS GROUP SLAG SALES




INVESTMENT
IN PRODUCERS
DURABLE
EQUIPMENT
$ BILLIONS
75
60
45
30
PROCESS
INDUSTRIES GROUP
SALES AND REVENUES
$ MILLIONS
120
105
90
60
45
30
15
1965
1966
1967
1968
1969
1970
1971

Energy & Process Industries

New strategies designed to lead IU's Energy & Process Industries Group into a larger participation in the energy industry's capital equipment market were shaped during 1971. The Group makes valves, piping, fractionating and cooling towers, pressure vessels, compressors, heat exchangers, and other components used in electric generating plants, petroleum refineries and in petroleum, oil, and gas processing—natural, synthetic and liquefied.

Spurred by the widening energy gap, demand for power equipment mounts. Over the past 20 years energy demand in the U.S. doubled. By 1985 it will double again. Accordingly, electric utilities have projected a growth rate of 15 per cent a year in electric generating equipment expenditures through 1985. By placing additional emphasis on the energy segment of the capital goods market where demand is more predictable and virtually non-postponable, the Group's sensitivity to the sharp swings in typical capital spending cycles is reduced considerably.

At the end of 1971 IU acquired the 45 per cent minority interest in the Walworth Company, a major maker of a full line of industrial valves. Walworth's potential was highlighted by the award in 1971 to its two-thirds owned Italian subsidiary of a contract worth over $26 million to supply valves for the first part of a 37,000 mile pipeline network which will link the Soviet Union's vast gas fields with Western Europe.

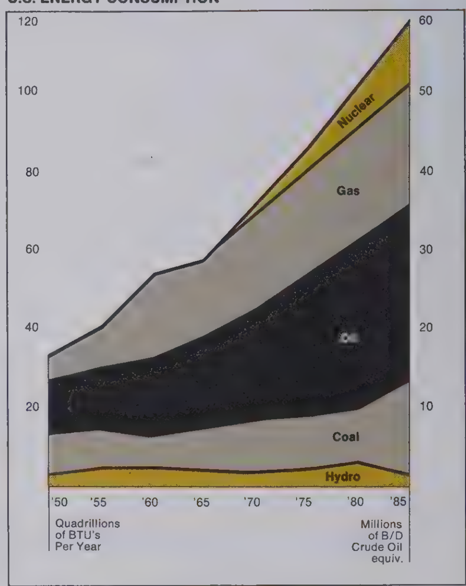
The Group's strategy calls for a concentration on the nuclear segment of the energy industry, which is expected to rise from its present 3 per cent base of total U.S. generating capacity to 12 per cent by 1980 and 33 per cent by 1990.

Rising concern for safety and environmental controls will continue to lead to higher engineering standards for nuclear facilities. To meet these anticipated higher standards, four of the Group's production units have qualified for the nuclear "N Stamp" designation granted by the American Society of Mechanical Engineers.

Expansion of U.S. refinery capacity and natural and synthetic gas production to meet the energy shortage and conversion of refineries to low-pollutant gasoline also offer attractive opportunities.

As a result of the soft capital goods market and elimination of unprofitable product lines, 1971 Group revenues were virtually unchanged at $111.8 million compared with $112.6 million in 1970.

U.S. ENERGY CONSUMPTION




HAWAIIAN SUGAR CROP ESTIMATED VALUE
$ MILLIONS
AGRICULTURE/ LAND DEVELOPMENT SALES AND REVENUES
$ MILLIONS
175
150
125
100
195
185
175
165
RATIO SCALES
1965
1966
1967
1968
1969
1970
1971

Agriculture/Land Development

For more than 100 years, IU's 54 per cent-owned Hawaiian subsidiary, C. Brewer and Co., Limited, has been growing sugar, a business that requires vast amounts of land. A decade ago the company embarked on an agricultural and industrial diversification program to free itself from total dependence on this single crop. This led to investment in agricultural support services and a number of non-agricultural activities both in Hawaii and on the mainland.

In 1968, Brewer took the first steps toward launching the most promising new direction in its 146-year history: Development of a portion of its non-agricultural land-holdings for tourism and recreational use.

Brewer controls over 250,000 acres, most of it on the Big Island of Hawaii, with half owned outright and half under lease.

The land development program commits 7,500 non-agricultural acres and expenditure of about $250-$300 million by the end of the decade. The program, in the planning stage for three years, was activated in 1971 with start of construction in Hilo of a 294-room resort village complex and multi-cultural marketplace scheduled to open in mid-1972.

For Brewer, implementation of the plan, which will accelerate in 1972, marks the company's arrival as a land manager, putting the lands under its control to the most productive use consistent with the preservation of Hawaii's unique environment.

The Polynesian-style Waiakea Village complex in Hilo will serve as the gateway to a unique regional resort complex stretching some 75 miles to the southerly tip of the Big Island. Thirty miles south of Hilo lies the Ka'u district, an area as large as the entire island of Oahu. Entry to the district is through Hawaii Volcanoes National Park, where Brewer's famous Volcano House Hotel is located at the edge of active Kilauea Crater. Adjacent is Brewer's 18-hole Volcano Golf and Country Club.

Thirty miles farther south is the magnificent black sand beach at Punaluu. Here on a fresh water lagoon Brewer in 1972 will build a visitor information center and restaurant. Half a mile away at Ninole Cove a series of fresh water lagoons is being dredged and an 18-hole championship golf course is under construction, to be completed in 1973.

By mid-year, work will start at Ninole on a 150-room village consisting of hotel and condominium units. Completion is set for 1973, and additional units are planned through 1979. With these amenities well under way, land sales will begin in 1973.

Since Brewer holds some 100,000 acres in the Ka'u area, it is in a position to control the total environment surrounding the 7,500 acres earmarked for development. The adjacent acreage will be retained in sugar, macadamia orchards, and cattle-grazing.

As part of its commitment to optimize the use of its lands and maintain its historic position in agriculture, Brewer in 1971 also undertook a series of programs to improve its sugar and other agricultural operations. Experiments were launched to improve profitability through better methods of growing, harvesting and milling sugar. These measures are expected to improve productivity significantly.

Hawaii's first co-op to mill sugar was established at the start of 1972. The co-op will expand and modernize two mills in order to meet higher environmental requirements, enabling Brewer to close two older plants by 1974. Agreement was reached to sell one of the company's smaller plantations and operations were terminated at another plantation. More than half of the latter unit, totaling some 8,600 acres, has been sold.

VISITORS TO HAWAII
Excluding military and related visitors

Although profits from sugar and other island-based operations were adversely affected by the West Coast longshoremen's strike, earnings from continuing operations increased in 1971. Sugar production rose slightly in 1971 to 324,503 tons from 320,072 tons, but closing of the California & Hawaiian refinery as a result of the strike resulted in disappointing returns. Brewer received $158.75 per ton in 1971 compared with $155.70 in 1970. Substantial improvement was shown by the company's international molasses and cattle feed-supplement operations and its worldwide sugar trading business.

Brewer's contribution to IU earnings increased to $7.6 million from $7.2 million. Agricultural and related operations improved nearly two-fold in 1971—the best performance in more than 10 years. Year-earlier results included $3.6 million from the sale of lands in Puerto Rico, compared with only $721,000 in 1971. Revenues rose to $168 million from $154.5 million.

10-Year Comparative Historical Financial Data

Adjusted for poolings of interests. (In thousands except per share data)

Sales and revenues:	1971	1970
Land transportation	$ 273,541	$244,640
Ocean shipping	124,180	87,635
Utilities	137,155	119,147
Industrials	377,003	359,005
Agriculture/Land development	168,021	154,511
Other operations	18,934	20,909
Total Operating Groups	1,098,834	985,847
Interest and dividend income	10,142	11,881
Total Sales and Revenues	$1,108,976	$997,728
Net income:		
Operations	$ 50,051	$ 36,095
Disposition of properties and investments	—	338
Net income	$ 50,051	$ 36,433
Net income per average common share and common equivalent share (1):		
Operations	$ 3.28	$ 2.37
Disposition of properties and investments	—	.02
Net income	$ 3.28	$ 2.39
Dividends per common share	$ 1.40	$ 1.35
Common shares and common equivalent shares—used in computing net income per share data (2) (3)	14,354	13,967
Shares outstanding—year-end:		
Special Stock, Series A (2)	2,942	3,544
Common (3)	10,925	9,983
Shareholders' equity per common share and common equivalent share	$ 24.52	$ 22.58

(1) See note 10 to the financial statements.
(2) 1966 and prior years adjusted for subsequent stock dividends.
(3) 1962 adjusted for the two-for-one stock split in May 1963.

1969	1968	1967	1966	1965	1964	1963	1962
$233,348	$211,582	$186,021	$197,130	$151,720	$114,928	$113,868	$106,263
46,125	38,062	33,020	24,775	19,652	17,679	5,238	—
103,778	93,650	88,341	82,691	76,871	70,380	64,973	61,310
325,077	311,361	305,450	291,270	249,683	97,008	83,410	77,642
114,142	—	—	—	—	—	—	—
70,401	82,278	59,223	47,204	41,992	33,245	29,384	28,314
892,871	736,933	672,055	643,070	539,918	333,240	296,873	273,529
10,459	7,286	5,606	5,940	4,729	3,041	2,305	1,619
$903,330	$744,219	$677,661	$649,010	$544,647	$336,281	$299,178	$275,148
$ 26,341	$ 26,200	$ 28,578	$ 26,493	$ 22,039	$ 18,278	$ 13,713	$ 13,239
10,891	12,113	7,554	10,188	2,842	2,930	5,126	1,772
$ 37,232	$ 38,313	$ 36,132	$ 36,681	$ 24,881	$ 21,208	$ 18,839	$ 15,011
$ 1.83	$ 1.93	$ 2.13	$ 1.94	$ 1.60	$ 1.36	$ 1.01	$ .91
.75	.89	.57	.75	.20	.22	.38	.12
$ 2.58	$ 2.82	$ 2.70	$ 2.69	$ 1.80	$ 1.58	$ 1.39	$ 1.03
$ 1.29	$ 1.20	$ 1.11	$ 1.02	$ .92	$ .83	$ .74	$ .72
12,816	11,883	11,365	11,577	11,699	10,380	10,077	9,861
4,188	4,188	4,876	4,609	4,489	4,220	4,249	4,235
9,181	7,944	6,716	6,613	7,001	6,903	5,762	5,166
$ 21.41	$ 19.04	$ 16.76	$ 14.42	$ 13.58	$ 12.75	$ 12.08	$ 9.27

STATEMENTS OF CONSOLIDATED INCOME
Years ended December 31, 1971 and 1970
(In thousands—note 1)

	1971	1970
SALES, REVENUES AND OTHER INCOME, including interest and dividends, 1971—$10,142; 1970—$11,881	$1,108,976	$997,728
COSTS AND EXPENSES:		
Cost of products sold and other operating costs and expenses, excluding depreciation and amortization	786,404	711,084
Selling, general and administrative expenses, excluding depreciation and amortization	145,694	135,599
Depreciation and amortization (note 4)	55,118	46,356
Interest and debt expense	39,492	42,963
Income taxes, including deferred taxes (recovery), 1971—($726); 1970—$1,948 (note 8)	24,411	19,791
Minority interests	7,806	5,840
	1,058,925	961,633
NET INCOME:		
Operations	50,051	36,095
Disposition of properties and investments after reserve for possible losses, less income taxes (recovery) 1971—($6,971); 1970—$2,141 (note 3)	—	338
Net income	50,051	36,433
DIVIDEND REQUIREMENT ON PREFERRED STOCK	2,933	3,090
BALANCE APPLICABLE TO COMMON SHARES AND COMMON EQUIVALENT SHARES	$ 47,118	$ 33,343
PER AVERAGE COMMON SHARE AND COMMON EQUIVALENT SHARE AFTER PREFERRED DIVIDENDS ALLOCATED PROPORTIONATELY BETWEEN SOURCES OF NET INCOME (note 10):		
PRIMARY:		
Net income—operations	$ 3.28	$ 2.37
Net income—disposition of properties and investments	—	.02
Net income	$ 3.28	$ 2.39
FULLY DILUTED:		
Net income—operations	$ 2.81	$ 2.01
Net income—disposition of properties and investments	—	.02
Net income	$ 2.81	$ 2.03

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEETS

December 31, 1971 and 1970
(In thousands—note 1)

	1971	1970
ASSETS		
CURRENT ASSETS:		
Cash	$ 49,379	$ 42,004
Accounts receivable, less allowances	186,636	160,412
Inventories (note 2)	102,055	99,679
Prepaid expenses and other current assets	22,636	20,239
Total current assets	360,706	322,334
INVESTMENTS (note 3)	163,113	175,233
PROPERTY, PLANT AND EQUIPMENT, at cost (note 4)	1,197,166	1,118,273
Less accumulated depreciation and amortization	363,656	342,539
Net property, plant and equipment	833,510	775,734
DEFERRED CHARGES, less amortization	17,297	16,439
OPERATING RIGHTS AND OTHER INTANGIBLES, net (note 5)	32,160	33,015
Total assets	$1,406,786	$1,322,755
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt—current maturities	$ 44,162	$ 51,498
Notes payable	87,165	58,452
Accounts payable and accrued liabilities	98,571	73,206
Income taxes	18,518	22,181
Other current liabilities	58,793	59,802
Total current liabilities	307,209	265,139
LONG-TERM DEBT, excluding current maturities (note 6)	500,137	496,386
OTHER LIABILITIES	26,719	22,237
DEFERRED INCOME TAXES (note 8)	18,756	23,879
CONTRIBUTIONS AND ADVANCES FOR CONSTRUCTION	42,133	35,856
MINORITY INTEREST IN SUBSIDIARIES	115,137	118,410
SHAREHOLDERS' EQUITY (note 9):		
Series preferred stock	44,446	48,314
Series preference stock	59,162	70,370
Common stock	27,890	25,292
Additional paid-in capital	71,969	52,000
Retained earnings (note 6)	208,971	175,346
	412,438	371,322
Less shares in treasury, at cost	15,743	10,474
Total shareholders' equity	396,695	360,848
Total liabilities and shareholders' equity	$1,406,786	$1,322,755

See accompanying notes to financial statements.

STATEMENTS OF CONSOLIDATED ADDITIONAL PAID-IN CAPITAL

Years ended December 31, 1971 and 1970
(In thousands—note 1)

	1971	1970
AMOUNT AT BEGINNING OF YEAR	$ 52,000	$ 52,261
Adjustment to reflect acquisition of pooled subsidiaries	—	(12,091)
	52,000	40,170
ADD:		
Capital in excess of par or stated value of shares issued upon:		
Conversion of bonds of a subsidiary into common stock of the Corporation	2,585	66
Conversion of preferred stock into common and Special Stock, Series A	3,419	276
Conversion of Special Stock, Series A into common	10,090	11,141
Exercise of employees' stock options	3,826	335
Other adjustments, net	49	12
AMOUNT AT END OF YEAR	$ 71,969	$ 52,000

STATEMENTS OF CONSOLIDATED RETAINED EARNINGS

Years ended December 31, 1971 and 1970
(In thousands—note 1)

	1971	1970
AMOUNT AT BEGINNING OF YEAR	$175,346	$145,789
Adjustment to reflect acquisition of pooled subsidiaries	—	12,049
	175,346	157,838
Net income	50,051	36,433
	225,397	194,271
DEDUCT:		
Dividends:		
Preferred	832	1,017
Common (1971—$1.40; 1970—$1.35 per share)	14,796	12,850
Pooled subsidiaries prior to acquisition	1,076	1,448
Excess of cost over par value of treasury stock reissued upon acquisition of pooled subsidiary	—	1,858
Recapitalization of pooled subsidiary prior to acquisition	—	1,080
Other adjustments, net	(278)	672
	16,426	18,925
AMOUNT AT END OF YEAR	$208,971	$175,346

See accompanying notes to financial statements.

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Years ended December 31, 1971 and 1970
(In thousands—note 1)

	1971	1970
FUNDS PROVIDED:		
Net Income	$ 50,051	$ 36,433
Add charges not requiring cash expenditure, principally depreciation and amortization	72,417	67,169
Funds provided from operations	122,468	103,602
Disposition of property, plant and equipment	15,510	13,539
Sales of noncurrent investments	56,173	27,298
Issue of long-term debt, less expenses of issue	89,289	100,970
Issue of capital stock, less expenses of issue	11,432	2,797
Sale of treasury stock	—	4,757
Other	7,500	14,014
Total	302,372	266,977
APPLIED AS FOLLOWS:		
Purchase of property, plant and equipment	134,430	131,559
Acquisition of noncurrent investments	40,166	62,581
Reclassification of certain securities from current assets to long-term investments	—	24,923
Reduction of long-term debt	98,719	64,680
Redemption and conversion of preferred stock	4,439	2,667
Purchase of treasury stock	5,269	5,932
Cash dividends on preferred and common shares	16,704	15,315
Excess of cost over underlying assets of subsidiaries acquired during year in purchase transactions	—	4,496
Other	6,343	12,850
Total	306,070	325,003
DECREASE in working capital	$ (3,698)	$(58,026)
CHANGES IN COMPONENTS OF WORKING CAPITAL:		
Cash	$ 7,375	$ (8,705)
Accounts receivable, less allowances	26,224	2,591
Inventories	2,376	(8,441)
Prepaid expenses and other current assets	2,397	(57,159)
Total	38,372	(71,714)
Long-term debt—current maturities	(7,336)	22,227
Notes payable	28,713	(28,343)
Accounts payable and accrued liabilities	25,365	(27,516)
Income taxes	(3,663)	11,188
Other current liabilities	(1,009)	8,756
Total	42,070	(13,688)
DECREASE in working capital	$ (3,698)	$(58,026)

See accompanying notes to financial statements.

Notes to Financial Statements

For the Years 1971 and 1970

Note 1 Principles of Consolidation

The consolidated financial statements include the accounts of the Corporation and all significant subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

On October 15, 1971 the Corporation acquired all of the outstanding stock of Biggers Brothers, Incorporated (Biggers) in exchange for 156,250 shares of common stock. On November 30, 1971, under an agreement entered into prior to October 31, 1970, the Corporation acquired 86.89% of the outstanding stock of Pacific Intermountain Express Co. (P.I.E.) in exchange for 1,689,699 shares of a new $1.25 Convertible Preferred Stock (convertible into .8 shares of common stock); the remainder of the outstanding stock of P.I.E. having been acquired for cash during the period from May 1969 to July 1970. Pooling-of-interests accounting treatment has been applied to the acquisition of Biggers and to that portion of the acquisition of P.I.E. which was effected through an exchange of shares; purchase accounting treatment was applied to that portion of the acquisition of P.I.E. involving cash transactions.

During the two years ended December 31, 1971, the Corporation disposed of, or agreed to dispose of, its interests in Parker and Co. International, Inc., its communications companies located in the United States, Divcon, Inc., Bradford-White Corporation and certain smaller companies.

The contribution to sales and revenues and net income of acquisitions and dispositions for the two years ended December 31, 1971 was as follows:

	SALES AND REVENUES Year ended December 31, 1971	1970	NET INCOME-OPERATIONS Year ended December 31, 1971	1970
Acquisitions	$207,404,000	$177,429,000	$4,757,000	$ 2,035,000
Dispositions	$ 30,873,000	$ 52,256,000	$ 615,000	$(1,733,000)

The net income-operations related to dispositions above has been included in other income in the statements of consolidated income.

The Corporation and its Canadian subsidiaries maintain their accounts in Canadian currency. The accounts of the remaining subsidiaries are either maintained in or translated into United States currency. Effective June 30, 1970, the Corporation, which previously reported in Canadian currency, commenced reporting in United States currency and the accounts of the Corporation and its subsidiaries operating in Canada have been translated into United States currency at the exchange rates prevailing at the respective dates. The unrealized losses on foreign exchange at December 31, 1971 and 1970, which were not material, have been provided for in the accounts.

The Corporation's principal non U.S. operations relate to its Canadian utility operations and its ocean shipping operations, the latter being carried on in a number of countries. A summary of significant items with respect to such operations for the years 1971 and 1970 follows:

	1971 Net Current Assets	1971 Total Assets	1971 Sales and Revenues	1971 Net Income	1970 Net Current Assets	1970 Total Assets	1970 Sales and Revenues	1970 Net Income
Canadian	($20,361,000)	$323,642,000	$121,672,000	$13,112,000	($ 2,067,000)	$299,129,000	$111,375,000	$ 9,556,000
Other foreign	(20,425,000)	224,501,000	136,976,000	24,822,000	(17,808,000)	202,200,000	95,217,000	20,467,000
Total foreign	($40,786,000)	$548,143,000	$258,648,000	$37,934,000	($19,875,000)	$501,329,000	$206,592,000	$30,023,000

As the result of the acquisition of Pacific Intermountain Express Co., and by agreement with the Interstate Commerce Commission the Corporation is subject to certain provisions of the Interstate Commerce Act. The accompanying financial statements are presented in conformity with generally accepted accounting principles which differ from Interstate Commerce Commission principles in that current liabilities include current maturities of long-term debt, net income and retained earnings are reduced by deferred income taxes arising from accelerated depreciation and other timing differences, and in certain other minor respects.

Note 2 Inventories

Inventories at December 31, 1971 and 1970 are summarized as follows:

	1971	1970
Utility (at average cost or less)	$ 6,688,000	$ 5,578,000
Industrial (at lower of cost or market):		
Finished products	25,551,000	26,264,000
Work in process	24,263,000	26,879,000
Raw materials and supplies	20,226,000	18,064,000
	70,040,000	71,207,000
Merchandise and commodities (at lower of cost or market)	21,063,000	20,116,000
Other (at cost)	4,264,000	2,778,000
	$102,055,000	$99,679,000

Industrial and merchandise and commodities inventories include items valued on a last-in, first-out basis with an aggregate cost of $13,030,000 and $11,055,000, respectively, which is approximately $2,689,000 and $3,188,000, respectively, less than the cost of such inventories valued on a first-in, first-out basis. The bases of determining cost for the remainder of the industrial and merchandise and commodities inventories are generally first-in, first-out or average.

Note 3 Investments

Investments at December 31, 1971 and 1970 consist of the following:

	Carrying Value 1971	Carrying Value 1970
Continental Telephone Corporation—842,692 and 864,800 shares, respectively, of common stock, at cost (market value 1971—$18,855,000; 1970—$21,836,000) reserved for redemption of $4.40 Voting Preferred Stock of GWC Incorporated having an aggregate par value of $21,067,300 and $21,620,000, respectively	$ 3,893,000	$ 3,995,000
Unconsolidated subsidiaries, at equity	31,006,000	41,971,000
Capital stock of sugar refining and marketing cooperative, at cost	12,127,000	6,359,000
Chemical Leaman Tank Lines—common stock, at cost (market value 1971—$4,250,000; 1970—$2,917,000)	5,500,000	5,500,000
Bonds and debentures, at cost (market value 1971—$9,450,000; 1970—$9,863,000)	11,813,000	13,543,000
Joint ventures, at cost	13,337,000	7,566,000
Noncurrent accounts and notes receivable	35,104,000	31,679,000
Land held for resale, at cost	24,854,000	7,709,000
Petroleum properties, at cost less amortization	10,667,000	5,812,000
Investments disposed of in 1971	—	35,255,000
Other investments and cash deposits of $12,200,000 (1970—$10,300,000)	25,012,000	25,344,000
Reserve for possible loss	(10,200,000)	(9,500,000)
	$163,113,000	$175,233,000

During 1971 the Company disposed of its investments in capital stock of Western Union International, Inc., Frank B. Hall and Co. Inc., Penn Central Company, and certain other properties. These transactions resulted in a gain of approximately $6,000,000, net of tax after application of reserves provided in prior years. A provision of $10,200,000 was made during 1971 for anticipated losses on certain remaining investments which, after provision for related tax benefit, was approximately equal to the net realized gain from disposition.

Note 4 Property, Plant and Equipment

Property, plant and equipment, which is principally depreciated on a straight-line basis (except as indicated below) is summarized as follows:

	1971			1970		
Type of Operation	Gross	Accumulated Depreciation and Amortization	Net	Gross	Accumulated Depreciation and Amortization	Net
Shipping	$ 206,027,000	$ 50,797,000	$155,230,000	$ 180,779,000	$ 35,027,000	$145,752,000
Trucking	138,718,000	60,046,000	78,672,000	139,293,000	62,691,000	76,602,000
Utility	566,959,000	131,141,000	435,818,000	510,348,000	121,360,000	388,988,000
Industrial	158,993,000	78,110,000	80,883,000	156,026,000	72,829,000	83,197,000
Agriculture, land development, etc.	104,521,000	37,950,000	66,571,000	109,420,000	45,137,000	64,283,000
Office building	14,271,000	3,299,000	10,972,000	13,840,000	2,911,000	10,929,000
Other	7,677,000	2,313,000	5,364,000	8,567,000	2,584,000	5,983,000
	$1,197,166,000	$363,656,000	$833,510,000	$1,118,273,000	$342,539,000	$775,734,000

Effective January 1, 1971, a subsidiary changed its method of computing depreciation on a substantial portion of its ocean vessels from a straight-line basis to a double-declining basis. As a result of this change, depreciation expense for 1971 was increased, and net income was decreased, by $5,644,000 or 39 cents a share.

Note 5 Operating Rights and Other Intangibles

The amount carried as operating rights and other intangibles consists of: (a) the cost to subsidiary companies of operating rights; (b) the cost of communications services organizations, subscriptions and other intangibles; and (c) the excess of the cost of investments in subsidiaries over the underlying net assets of such subsidiaries, less (d) the excess of the adjusted net assets of consolidated subsidiaries at dates of acquisition over the cost of the investments therein.

With certain minor exceptions as to acquisitions prior to October 31, 1970, it is not the policy of the companies to amortize the amounts carried as intangibles as, in the opinion of management, such intangibles have continuing value. Intangibles resulting from purchase acquisitions subsequent to that date will be amortized.

Note 6 Long-Term Debt

Long-term debt at December 31, 1971 and 1970 is summarized as follows:

	1971			1970	
	Total Amount	Current Maturities		Total Amount	Current Maturities
FIRST MORTGAGE BONDS:					
Due 1972 to 1976; 3⅛% to 7%	$ 7,682,000	$ 1,995,000	Due 1971 to 1975; 3⅛% to 7%	$ 17,956,000	$10,398,000
Due 1977 to 1981; 3½% to 5¾%	24,820,000	546,000	Due 1976 to 1980; 3½% to 5¾%	12,562,000	314,000
Due 1982 to 1986; 4¾% to 6¼%	19,961,000	150,000	Due 1981 to 1985; 4⅛% to 6¼%	29,814,000	733,000
Due 1987 to 1991; 5⅛% to 6%	40,257,000	412,000	Due 1986 to 1990; 5% to 9¾%	49,420,000	519,000
Due 1992 to 1996; 6½% to 9¾%	49,552,000	728,000	Due 1991 to 1995; 5⅛% to 9¾%	31,289,000	648,000
OTHER:					
SECURED:					
Due 1972 to 1976; 3¾% to 8½%	49,159,000	10,351,000	Due 1971 to 1975; 3¾% to 9¾%	44,961,000	10,587,000
Due 1977 to 1981; 5% to 8⅗%	76,031,000	9,698,000	Due 1976 to 1980; 5% to 8%	58,042,000	6,563,000
Due 1982 to 1986; 5½% to 8%	2,165,000	114,000	Due 1981 to 1985; 5¾% to 8¼%	9,938,000	101,000
Due 1987 to 1991; 6½% to 7½%	1,631,000	49,000	Due 1986 to 1990; 6% to 8%	1,525,000	46,000
Due 1992 to 1996; 6⅔%	12,935,000	1,200,000	Due 1991 to 1995; 6% to 6⅗%	368,000	17,000
UNSECURED:					
Due 1972 to 1976; 5% to 10½%	123,847,000	15,610,000	Due 1971 to 1975; 5% to 9½%	186,914,000	17,828,000
Due 1977 to 1981; 5% to 9%	58,424,000	1,969,000	Due 1976 to 1980; 5% to 9%	36,936,000	1,847,000
Due 1982 to 1986; 5¼%	5,279,000	—	Due 1981 to 1985; 5¼% to 7½%	35,544,000	1,807,000
Due 1987 to 1991; 5¼% to 9¾%	53,090,000	1,300,000	Due 1986 to 1990; 5¼% to 7¼%	22,790,000	50,000
Due 1992 to 1996; 5¾% to 6%	19,466,000	40,000	Due 1991 to 1995; 9⅝%	9,825,000	40,000
	$544,299,000	$44,162,000		$547,884,000	$51,498,000

The long-term debt, except for certain minor amounts, is payable by subsidiaries. The mortgage bonds and secured debt are subject to various indentures and agreements requiring, among other things, either the mortgaging of properties, the pledging of investments in subsidiaries or, in certain instances, a combination of both.

Unsecured debt includes the 5¼% Guaranteed Convertible Bonds due June 1, 1986, which are convertible into the Corporation's common stock and 6¾% Guaranteed Bonds due April 30, 1978, which were issued with warrants entitling the holder to subscribe for shares of the Corporation's common stock (note 9).

Sinking fund requirements and instalments of long-term debt maturing in the years 1973, 1974, 1975 and 1976 amount to approximately $80,415,000, $54,696,000, $46,929,000 and $40,019,000, respectively, after deducting bonds which have been repurchased and excluding requirements which may be satisfied by certification of property additions.

The bond indentures and note agreements executed by the Corporation and certain subsidiaries place limitations on the Corporation and its subsidiaries, including restrictions on the payment of dividends. Of the consolidated retained earnings at December 31, 1971 and 1970, approximately $98,000,000 and $87,000,000, respectively, were free from such restrictions.

Note 7 Pension Plans

The Corporation and certain of its subsidiaries have various insured or trusteed pension plans, some of which require employee contributions, and which generally provide for normal retirement at age 65. The aggregate unfunded past service liabilities under such plans, being amortized over periods not exceeding 40 years, amount to approximately $18,900,000 at December 31, 1971, in respect of which unfunded vested benefits at December 31, 1971 are estimated to be $11,000,000.

Pension plans of a subsidiary negotiated under union agreements are administered by that company. The liability under such union plans is included in other liabilities, except for approximately $5,009,000 resulting from plan changes which is being provided over 40 years or less.

Aggregate charges against income during the years ended December 31, 1971 and 1970 in respect of current service pension costs and in respect of the amortization of liabilities for past service pension costs amounted to approximately $9,300,000 and $8,400,000, respectively. Except for the subsidiary's union plans, it is the Corporation's policy generally to fund pension costs accrued.

Note 8 Income Taxes

(a) Certain utility subsidiaries are claiming depreciation and certain other expenses for income tax purposes in excess of the amounts recorded in the accounts without providing for the related income tax deferral. In fixing rates, these utilities recover only income taxes payable currently. Accordingly, no provision has been made in the accounts of these subsidiaries for this deferral of income taxes which amounted to approximately $3,200,000 in 1971, and $2,300,000 in 1970.

(b) Certain subsidiaries of Gotaas-Larsen Shipping Corporation operate in foreign countries where their income is substantially free of taxation. Income taxes of $6,000,000 and $3,200,000 have been provided on dividends received from such subsidiaries in 1971 and 1970 and an additional amount of $3,900,000 was provided in prior years. The balance of unremitted earnings is considered to be a permanent investment and no additional taxes have been provided thereon.

(c) The U.S. Internal Revenue Service in 1965 issued an administrative ruling which has the effect of denying losses, incurred in Puerto Rico in prior years, which have been included in the consolidated tax return of the Corporation's 54%-owned subsidiary, C. Brewer and Company, Limited. In addition, the subsidiary understands the Internal Revenue Service now proposes not to recognize for tax purposes the division of Puerto Rico business into a land company and sugar operating company effected in 1965. In accordance with a Revenue Agent's report dated March 24, 1971 the net income taxes in question related to these issues for the years 1961-1971 inclusive approximates $13,800,000.

In the opinion of Brewer's management, based upon the advice of their attorneys and auditors, the ruling relied upon by the Internal Revenue Service is erroneous and any subsequent action of the Internal Revenue Service in not recognizing the 1965 transaction would also be erroneous. The subsidiary intends to contest any tax assessment on these issues.

Note 9 Capital Stock

The authorized and issued capital stock of the Corporation at December 31, 1971 and 1970 is summarized below:

	Issued at December 31, 1971		Issued at December 31, 1970	
	Shares	Stated or par value	Shares	Stated or par value
Series preferred stock, without par value:				
Authorized: 1971—4,868,071 shares; 1970—5,000,000 shares; reserved 12,743 and 51,500 shares, respectively, classified as $1.25 convertible series for exercise of stock options				
Issued:				
$5.00 series (in treasury 1971—3,295 shares; 1970—200 shares)	93,302	$ 9,563,000	93,302	$ 9,563,000
$6.00 series A	25,200	2,520,000	26,400	2,640,000
$6.00 series B (in treasury 1971—1,980 shares)	28,163	2,816,000	28,163	2,816,000
$1.25 convertible series (in treasury at both dates—254,932 shares)	1,949,631	29,547,000	1,910,874	28,978,000
$1.32 convertible series	—	—	127,629	4,212,000
$4.50 convertible series	—	—	1,050	105,000
	2,096,296	$44,446,000	2,187,418	$48,314,000
Series preference stock without par value:				
Authorized: 1971—7,641,187 shares; 1970—10,000,000 shares; reserved 8,862 shares and 41,183 shares, respectively, classified as Special Stock, Series A (for conversion of preferred stock, 3,066 shares in 1970, and exercise of stock options, 8,862 shares and 38,117 shares, respectively)				
Issued—Special Stock, Series A (in treasury 1971—121,371 shares; 1970—101,171 shares)	3,062,929	$59,162,000	3,644,744	$70,370,000

	Issued at December 31, 1971		Issued at December 31, 1970	
	Shares	Stated or par value	Shares	Stated or par value
Common stock, par value $2.50 per share: Authorized—30,000,000 shares; reserved for conversion of preferred stock, 1,569,899 shares and 1,684,765 shares,respectively; for conversion of Special Stock, Series A, 6,730,601 shares and 8,076,235 shares, respectively; for conversion of bonds of a subsidiary, 164,968 shares and 252,625 shares, respectively; for exercise of warrants attached to bonds of a subsidiary, 90,000 shares; and for exercise of stock option and stock purchase plans, 823,002 shares and 986,418 shares, respectively.				
Issued (in treasury 1971—231,594 shares; 1970—134,169 shares)	11,156,103	$27,890,000	10,117,020	$25,292,000

The holders of preferred stock are entitled to cumulative dividends payable at the respective rates set out in the titles of the various series, have voting rights and, except for the $1.25 Convertible Preferred Stock, upon liquidation or redemption are entitled to receive amounts varying from approximately the stated value to 103% of stated value plus accrued and unpaid dividends. The $1.25 Convertible Preferred Stock is redeemable any time after November 30, 1976 at $25 per share. At December 31, 1971, each share of the $1.25 Convertible Preferred Stock was convertible at any time into .8 of a common share. At December 31, 1971, the terms of the $6.00 Preferred Stock, Series A imposed upon the Corporation an obligation to redeem in each year 4% (presently 1,200 shares) of the aggregate number of shares of such series theretofore issued. All shares of the $1.32 and $4.50 convertible series were redeemed during 1971.

Holders of Special Stock, Series A are not entitled to receive any dividends; they have voting rights and on liquidation are entitled to receive $15 per share subject to the liquidation rights of the preferred shareholders. The Special Stock, Series A is convertible into 1.1699 and 1.1249 shares of common stock through December 31, 1972 and 1971, respectively, after which the conversion rates increase to a maximum of 2.1911 common shares on January 1, 1988. It is redeemable after December 31, 1977 at $70 per share.

Changes in capital stock during the years ended December 31, 1971 and 1970, are summarized as follows:

	1971			1970		
	Preferred	Special Stock, Series A	Common	Preferred	Special Stock, Series A	Common
Shares issued at beginning of year	2,187,418	3,644,744	10,117,020	351,871	4,187,629	9,304,331
Acquisition of pooled subsidiaries (note 1)	—	—	—	1,908,874	—	64,843
	2,187,418	3,644,744	10,117,020	2,260,745	4,187,629	9,369,174
Conversion of preferred stock	(111,606)	835	100,124	(35,242)	68,565	8,060
Redemption or retirement of preferred stock	(18,273)	—	—	(10,085)	—	—
Conversion of Special Stock, Series A	—	(611,702)	687,910	—	(669,352)	723,654
Cancellation of treasury stock	—	—	—	(30,000)	—	—
Exercise of stock options	38,757	29,052	163,416	2,000	57,902	13,884
Conversion of bonds of a subsidiary	—	—	87,633	—	—	2,248
Shares issued at end of year	2,096,296	3,062,929	11,156,103	2,187,418	3,644,744	10,117,020

Changes in treasury stock during the years ended December 31, 1971 and 1970 are summarized as follows:

	1971				1970			
	Total	Preferred	Special Stock, Series A	Common	Total	Preferred	Special Stock, Series A	Common
Shares held at beginning of year	490,472	255,132	101,171	134,169	279,103	—	—	279,103
Acquisition of pooled subsidiaries (note 1)	—	—	—	—	(57,253)	34,100	—	(91,353)
	490,472	255,132	101,171	134,169	221,850	34,100	—	187,750
Acquired	122,700	5,075	20,200	97,425	352,203	251,032	101,171	—
Reissued	—	—	—	—	(53,581)	—	—	(53,581)
Purchased	—	—	—	—	134,000	—	—	134,000
Sold	—	—	—	—	(134,000)	—	—	(134,000)
Cancelled	—	—	—	—	(30,000)	(30,000)	—	—
Shares held at end of year	613,172	260,207	121,371	231,594	490,472	255,132	101,171	134,169

Options to certain officers and employees of the Corporation and its subsidiaries were outstanding at December 31, 1971 and 1970 for the purchase of 198,790 shares and 241,118 shares, respectively, of common stock; 8,862 shares and 38,117 shares, respectively, of Special Stock, Series A; and 12,743 shares and 51,500 shares, respectively, of $1.25 Convertible Preferred Stock.

Options granted under the Employees Stock Option Plans are exercisable in varying amounts over periods from five to seven years from the date of grant, at prices from $18.96 to $49.75 per share of common stock, from $12.80 to $36.53 per share of Special Stock, Series A and from $11.88 to $19.63 per share of $1.25 Convertible Preferred Stock; such prices, depending on the terms of the particular plan, being from 85% to 100% of the fair market value of the stock at the date of grant.

The changes in the outstanding options during 1971 and 1970 were as follows:

	1971			1970		
	$1.25 Convertible Preferred Stock	Special Stock, Series A	Common	$1.25 Convertible Preferred Stock	Special Stock, Series A	Common
Shares under option at beginning of year	51,500	38,117	241,118	—	106,073	196,452
Acquisition of pooled subsidiary (note 1)	—	—	—	33,000	—	—
	51,500	38,117	241,118	33,000	106,073	196,452
Granted	—	—	20,500	23,500	—	78,500
Exercised	(38,757)	(29,052)	(48,538)	(2,000)	(57,902)	(13,884)
Cancelled or expired	—	(203)	(20,400)	(3,000)	(10,054)	(19,950)
Assumed from subsidiary acquired	—	—	6,110	—	—	—
Shares under option at end of year	12,743	8,862	198,790	51,500	38,117	241,118

At December 31, 1971 and 1970 there were 239,090 and 245,300 shares, respectively, of common stock reserved for future grants. No further options on shares of Special Stock, Series A and $1.25 Convertible Preferred Stock may be granted.

Under the Employee Stock Purchase Plan 500,000 shares of common stock may be sold to eligible employees. An initial offering was made at a purchase price of 85% of the market price of the stock on December 31, 1971, but not exceeding $24.55. At December 31, 1971, 114,878 shares of common stock were purchased at $24.55 per share under this offering. During 1971, a second offering was made at a purchase price of 85% of the market price of the stock on December 31, 1973, but not exceeding $31.51. Elections to purchase 215,000 shares were received for this offering.

Also, a subsidiary had outstanding options granted to officers and key employees to purchase shares of the subsidiary's common stock.

At December 31, 1971 and 1970 a wholly-owned subsidiary had outstanding $5,279,000 and $8,084,000, respectively, principal amount of bonds due in 1986 which are convertible prior to maturity into common stock of the Corporation at $32 per share. In addition, at December 31, 1971 and 1970 that subsidiary had outstanding $15,000,000 principal amount of bonds due in 1978 which were issued with warrants entitling the holder of each $1,000 bond to subscribe to six shares of common stock of the Corporation not later than April 30, 1978 at an aggregate price of $258.

Note 10 Net Income Per Average Share

The primary computation of average common shares and common equivalent shares is based on the total average shares of both common and Special Stock, Series A outstanding during each year, and the inclusion, as outstanding for the entire year, of the dilutive effect of shares issuable as of the end of the year upon exercise of stock option and stock purchase plans. The Special Stock, Series A, has been included on a basis equivalent to 1.1699 and 1.1249 common shares of the Corporation for 1971 and 1970, respectively, the applicable conversion rates.

The fully diluted computation of earnings per common and common equivalent share reflects, in addition to the primary computation, (a) the inclusion, as outstanding for the entire year, of shares issuable as of the end of the year upon conversion of convertible preferred stock and convertible bonds and (b) the elimination of the dividend requirements on such convertible preferred stock and the interest, net of income taxes, applicable to the convertible bonds. This computation assumes, in addition to the conversions referred to above, the theoretical conversion of each outstanding share of Special Stock, Series A (now convertible into 1.1699 common shares) into 1.7317 and 1.6651 common shares ten years after the end of each period and no additional conversions during the ten year period. However, in the opinion of management further substantial conversions are likely to occur during the ten year period.

Note 11 Contingencies and Commitments

At December 31, 1971 major commitments by certain subsidiaries consisted of approximately $127,500,000 for the purchase of vessels under construction; approximately $4,600,000 for the purchase of revenue equipment for the trucking companies; and approximately $17,000,000 for the construction of new utility plant. Mortgage financing has been arranged with respect to a portion of these commitments.

Included in the commitment on construction of vessels is approximately $26,100,000 applicable to partnerships which the subsidiaries have joined with other shipowners. In addition, the subsidiaries are contingently liable to the extent of approximately $57,800,000 representing the other partners' interests in the construction contracts for these vessels.

The Corporation and certain subsidiaries have long-term leases for the rental of properties, office space, vessels and terminal facilities. The aggregate minimum annual rental with respect to the major long-term leases is approximately $31,000,000. In addition, at December 31, 1971, C. Brewer and Company, Limited and its consolidated subsidiaries had leases in effect or under renegotiation with a minimum annual rental for 1972 of $5,600,000. The leases cover land, real property, mobile equipment and other facilities and have various termination dates. At December 31, 1971, certain subsidiaries of Brewer were contingently liable for letters of credit in the amount of approximately $40,900,000.

The Corporation has agreed to acquire in a purchase transaction all of the capital stock of G. & W. H. Corson, Incorporated in exchange for 324,860 shares of common stock of the Corporation and the contingent issuance of a maximum of 75,000 additional shares.

The By-laws of the Corporation provide for the indemnification of its directors, officers, employees or agents against liability and expenses with respect to their conduct in such capacities and when serving in similar capacities for other corporations at the request of the Corporation. In the opinion of the Corporation's counsel there is no reasonable probability at present of any substantial liabilities arising as a result of this By-law provision.

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
1500 WALNUT STREET
PHILADELPHIA, PA. 19102

The Board of Directors and Shareholders
International Utilities Corporation
Wilmington, Delaware

We have examined the consolidated balance sheets of International Utilities Corporation (a Maryland Corporation) and subsidiaries as of December 31, 1971 and December 31, 1970 and the related statements of income, additional paid-in capital, retained earnings, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of C. Brewer and Company, Limited and consolidated subsidiaries and Pacific Intermountain Express Co. and subsidiaries, included in the consolidated financial statements for the two years ended December 31, 1971, which were examined by other independent public accountants whose reports have been furnished to us. The consolidated assets at December 31, 1971 and December 31, 1970, and sales and revenues and net income for 1971 and 1970 of these companies represent 21.3% and 19.4% of consolidated assets, 30.3% and 30.1% of consolidated sales and revenues, and 15.3% and 13.0% of consolidated net income, respectively.

In our opinion, based upon our examination and the aforementioned reports of other independent accountants, the accompanying financial statements present fairly the consolidated financial position of International Utilities Corporation and subsidiaries at December 31, 1971 and December 31, 1970 and the results of their operations, and changes in additional paid-in capital, retained earnings, and financial position for the years then ended in conformity with generally accepted accounting principles applied on a consistent basis, except for the changes, of which we approve, in the method of providing depreciation on ocean vessels in 1971 as described in note 4 to the financial statements and in the basis of presenting financial statements in United States currency in 1970 as explained in note 1 to the financial statements.

Peat, Marwick, Mitchell & Co.

March 10, 1972

IU Operating Units

LAND TRANSPORTATION

Operates third largest motor carrier network in U.S., with 12,400 pieces of equipment providing service through some 285 terminals to almost every major market in nation. The group includes Pacific Intermountain Express Co., Oakland, Calif., and Ryder Truck Lines, Inc., Jacksonville, Fla.

OCEAN SHIPPING

The Gotaas-Larsen Companies, New York, N.Y., own and/or operate oil tankers, bulk carriers, refrigerator ships and cruise ships throughout the world, a fleet of 55 ships totaling 3.7 million dwt.

UTILITIES

Supplies natural gas and electricity to numerous communities in Alberta, Yukon Territory and Northwest Territories; provides water, sewer and heating services to 330,000 customers in 18 states of the United States and one province of Canada.

*Canadian Utilities, Ltd., Edmonton, Alberta
*General Waterworks Corp., Philadelphia, Pa.

INDUSTRIALS

Product Distribution Group

Operates two distribution systems from 11-state base in southeastern U.S.—one encompassing dairy products, institutional foods and related products requiring refrigeration; the other, paper and related dry products.

Energy & Process Industries Group

Supplies valves, piping, cooling towers, pressure vessels, compressors, heat exchangers and similar components used in electric generating plants, petroleum refineries and petroleum, oil and gas processing.

Metals & Minerals Group

Provides materials handling, metal recovery and slag services at steel mills; produces alloying agents used in manufacture of iron and steel; fabricates and erects structural steel; supplies lime, limestone and related products.

AGRICULTURE/LAND DEVELOPMENT

Produces sugar, molasses and macadamia nuts; owns or controls under long-term lease more than 250,000 acres of land in Hawaii; active in developing portions of its land for resort activities and condominiums.

*C. Brewer and Co., Ltd., Honolulu, Hawaii

**These subsidiaries have publicly traded securities outstanding.*

DIRECTORS

Robert C. Heim, *New York, New York*
Chairman of Schroder Capital Corporation.

John T. Jackson, *Haverford, Pennsylvania*
Senior Vice President of IU.

H. Irgens Larsen,* *New York, New York*
Vice Chairman of IU.

Willis S. McLeese, *Toronto, Ontario*
President of Trans Canada Freezers, Limited

J. G. Rubenstein, *Gladwyne, Pennsylvania*
Executive Vice President of IU.

John M. Seabrook,* *Salem, New Jersey*
Chairman and President of IU.

Ira T. Wender, Esq.,* *New York, New York*
Managing Director of S. G. Warburg & Company, Inc.

The Earl of Westmorland, K.C.V.O.,
London, England
Deputy Chairman of Sotheby & Company.

Dennis K. Yorath,* *Edmonton, Alberta*
Chairman of the Executive Committee of IU.

**Member of the Executive Committee of the Board of Directors*

OFFICERS

John M. Seabrook, *Chairman and President*

H. Irgens Larsen, *Vice Chairman*

J. G. Rubenstein, *Executive Vice President*

John T. Jackson, *Senior Vice President*

Dennis K. Yorath, *Chairman of the Executive Committee and Vice President*

Alden S. Bennett, *Vice President—Corporate Development*

Ivan L. Bielenberg, *Group Vice President—Product Distribution*

James J. Burke, *Vice President—Planning and Controls*

Robert F. Calman, *Vice President—Finance and Treasurer*

Anthony A. Goodchild, *Group Vice President—Energy & Process Industries*

Peter Keber, Esq., *Vice President, Secretary and General Counsel*

Marvin L. Krasnansky, *Vice President—Financial Communications*

John E. Maybin, *Group Vice President—Utilities*

Arlen D. Southern, *Vice President—Corporate Affairs*

Robert W. Wolcott, Jr., *Group Vice President—Metals & Minerals*

Daniel B. Berkson, Esq., *Assistant Secretary*

H. Beatty Chadwick, Esq., *Assistant Secretary*

Ronald N. Dalby, *Assistant Vice President*

John K. Eaton, *Assistant Secretary-Treasurer*

William F. Egan, *Assistant Secretary*

Laurent J. Remillard, *Assistant Treasurer*

Anson W. H. Taylor, Jr., Esq., *Assistant Secretary*

Kenneth A. B. Trippe, *Assistant Treasurer*

Board of Directors Changes

As a company resident in Canada, IU maintained a majority of Canadian citizens on its Board of Directors. Under certain U.S. regulatory requirements, two thirds of IU's directors must be U.S. citizens. Consequently, three Canadian directors resigned late in 1971: Paul Desmarais, Montreal, Quebec, Chairman and Chief Executive Officer of Power Corporation of Canada, Ltd.; F. Clarence Manning, Calgary, Alberta, President of Manning-Egleston Lumber Company, Ltd.; and Bruce F. Willson, Toronto, Ontario, President and Chief Executive Officer of Union Gas Company of Canada, Ltd. During their service these men made significant and lasting contributions to the company and its shareholders.

In February, 1972, Lord Crowther, London, England, Chairman of The Economist Newspaper Ltd. and an IU board member, died in London. Lord Crowther had served with distinction on the IU board for seven years, and his presence will be missed in the years ahead.

In December, 1971, J. G. Rubenstein, IU Executive Vice President, and John T. Jackson, IU Senior Vice President, were elected to the board. In March, 1972, the Earl of Westmorland, Deputy Chairman of Sotheby & Company, was named to the IU board, replacing Lord Crowther.

Management Changes

In order to meet the evolving management needs of the company, a number of responsibilities were shifted during the past year.

J. G. Rubenstein, 41, was promoted to the new position of Executive Vice President, with responsibility for Industrials, Land Transportation, and Utilities. He formerly was Senior Vice President—Industrials and Land Transportation. John T. Jackson, 50, was named Senior Vice President. He previously served as Senior Vice President—Corporate Staff. Murray E. Stewart, 45, formerly Senior Vice President—Utilities, was elected President and Chief Executive Officer of Brewer.

John E. Maybin, 47, Chairman and Chief Executive Officer of Canadian utility operations, was named Vice President Utilities Group. Egerton W. King, 52, President of the Canadian group, assumed the additional responsibility of Chief Executive Officer. John W. A. Buyers, 43, moved from Vice President—Administration on the corporate staff to President of General Waterworks, a position formerly held by Mr. Stewart. Arlen D. Southern, 38, joined the company in the position of Vice President—Corporate Affairs. Marvin L. Krasnansky, 42, formerly Vice President—Corporate Communications, became Vice President—Financial Communications.

Transfer Agents

The Bank of New York in New York, Bank of America, N. T. & S. A., in San Francisco, and Montreal Trust Company in Montreal, Toronto, Calgary, Vancouver and Regina are the transfer agents.

Registrars

The registrars are Chemical Bank in New York, Wells Fargo Bank N.A. in San Francisco, Crown Trust Company in Montreal, Toronto, Calgary and Vancouver and The Royal Trust Company in Regina.

Annual Meeting

The Annual Meeting of International Utilities Corporation shareholders will be held at 11 a.m. local time on Tuesday, May 2, 1972, at 100 West Tenth Street, Wilmington, Delaware. Shareholders are cordially invited to attend this meeting. A formal notice, together with a proxy statement and form of proxy, will be mailed to shareholders in advance of the meeting.

Stock Exchanges

IU's Common Stock, Special Stock, Series A, and $1.25 Convertible Preferred Stock are listed on the New York, Montreal, Toronto, Vancouver, Pacific Coast, Midwest, and Philadelphia-Baltimore-Washington Stock Exchanges. The Common Stock also is listed on The Stock Exchange, London, and the Amsterdam Stock Exchange. The 5¼% Guaranteed Convertible Bonds of International Utilities Overseas Capital Corp. (IUOCC) are listed on The Stock Exchange, London, and the Luxembourg Stock Exchange, and IU's Warrants dated May 1, 1968, attached to the 6¾% Guaranteed Bonds of IUOCC, are listed on the Luxembourg Stock Exchange.

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International Utilities Corporation

A BALANCED COMPANY DIVERSIFIED IN LAND TRANSPORTATION,
OCEAN SHIPPING, UTILITIES, INDUSTRIAL PRODUCTS & SERVICES,
AND LAND DEVELOPMENT & AGRICULTURE